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SUBJECT: DOC DEPUTY SECRETARY SAMPSON'S APRIL 27-28 VISIT TO
JAKARTA-NON-GOVERNMENT MEETINGS

¶1. (SBU) Summary. During his April 27-28 visit to Jakarta, Department of Commerce Deputy Secretary David A. Sampson discussed Indonesia's economic reform efforts and U.S. interests in Indonesia and region with business leaders, academics and opinion leaders. American Chamber of Commerce (Amcham) members lauded USAID and USG tsunami relief efforts, but noted that overall reconstruction efforts continue to face many challenges. Amcham Board of Governors members said that significant changes are taking place in Indonesia and that the Yudhoyono Administration is working closely with the private sector on reforms. Still, without more long-term capital investment, they said Indonesia faces the risk of another crisis in the near term. Economists from Indonesian think tanks and international financial institutions noted that the macroeconomic picture is stable, but said reform is moving slowly. More investment is needed to help Indonesia grow. A delegation from the Indonesia Chamber of Commerce and Industry (KADIN) called for stronger U.S. - Indonesia business ties, particularly between smaller companies. End Summary.

¶2. (U) Department of Commerce Deputy Secretary David A. Sampson visited Jakarta April 27-28. In addition to meeting Vice President Jusuf Kalla and the ministers of Finance, Science and Technology, and Industry, Dr. Sampson met a delegation from the Indonesian Chamber of Commerce and Industry, addressed an American Chamber of Commerce (AmCham) luncheon event and met the AmCham board, met U.S. companies involved in tsunami relief, held a roundtable with representatives of international financial institutions and Indonesian think tanks, officiated at the opening of a Citibank Call Center, and visited Caterpillar and Sarah Lee company facilities. This cable reports on Mr. Sampson's non-governmental meetings.

Amcham Assesses Tsunamis Relief and Reconstruction

¶3. (SBU) A group of Amcham company representatives lauded USAID's response to the December 26, 2004 Aceh tsunami and earthquake. They said USAID responded quickly to the disaster by identifying immediate needs, providing emergency relief and assisting the American business community in identifying reliable NGO partners. U.S. private and public sector contributions, particularly the USS Abraham Lincoln's emergency relief mission, had instilled in the Achenese people, and Indonesians in general, a much more positive view of America.

¶4. (SBU) While the emergency relief effort had been a success, the AmCham representatives said reconstruction is proving more difficult because it involves greater strategic planning, closer donor coordination, and the resolution of difficult issues such as land titling, job creation, and community development. Amcham members said that Aceh Reconstruction and Rehabilitation Agency (BRR) Head Kuntoro remains the right person for the job, but is dealing with a monumentally difficult task. The government bureaucracy continues to delay progress. Amcham members suggested that in response to future disasters, USAID should create and lead a task force made up of private sector donors and reputable NGOs to improve coordination. This task force could then help the private sector match its resources more effectively with actual needs.

Amcham Board Briefs on Business Environment

¶5. (SBU) Members of the Amcham Board of Governor's informed Deputy Secretary Sampson that the Yudhoyono Administration continues to consult closely with the private sector on proposed policy reforms, a remarkable and new development for Indonesia. They noted significant positive change is taking place, including in the area of corruption, but said the emergence of Chinese and other Asian countries had led to more "back room" business deals and caused transparency to slip, particularly in projects involving large state-owned enterprises (SOEs).

¶6. (SBU) Several board members warned that international pension and hedge fund "hot money" is currently propping up Indonesia's currency and stock market. However, they warned that Indonesia's first quarter investment figures were

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disappointing, and said the GOI risks another financial crisis unless it can begin to attract new long-term fixed capital investments. A new crisis would be an opportunity for Yudhoyono opponents and political extremists to undermine Yudhoyono Administration and its reform efforts.

¶7. (SBU) Board members asked about the future presence of the Foreign Commercial Service (FCS) in Indonesia and noted the FCS has been vital in helping to level the playing field for U.S. companies. They noted that, if given a choice, Indonesians generally preferred to work with U.S. companies since they offered opportunities for training and professional development. With the right support and policies in place, American companies can provide the capital that Indonesia needs to create growth, jobs and economic stability. Deputy Secretary Sampson said that the Department of Commerce (DOC) is currently performing a worldwide assessment of where the DOC should place FCS assets in the future. Some factors that the DOC will consider include the maturity of markets, the difficulty of doing business in them, current levels of deals taking place, and U.S. private sector interest. Finally, the Board members also stressed the critical need for increase Export-Import Bank involvement in Indonesia.

Economists: Indonesia Stable but Reform Slow

¶8. (U) In a meeting with the World Bank, International Monetary Fund (IMF) and think tanks, Sampson noted the importance of the ASEAN region for U.S. trade and investment. He said the U.S. hopes anti-corruption efforts will continue in Indonesia, as well as steps to improve IPR enforcement. A think tank representative said that Indonesia's macro-economy is stable and its financial sector is vibrant, but unemployment is too high at about 11 percent. He suggested the U.S. could support Indonesia's efforts to create more special economic zones (SEZs). A World Bank expert on investment climate noted that

Indonesia's rigid labor regulations are holding back growth. The status of amendments to the labor law is unclear given labor union demonstrations against them--a very large labor demonstration (10-30,000) is scheduled for May 1 in Jakarta. The IMF representative noted that two thirds of the Parliament is fairly new, making consensus building on economic policy more of a challenge. He said Indonesia's economy is still processing the fuel subsidy cuts from last year, but growth should pick up in the second half.

¶9. (U) All participants agreed that Indonesia's oft-cited challenges remain issues of concern: lack of legal certainty, tax and customs problems, inflexible labor regulations, and infrastructure constraints. The IMF representative noted that patience and persistence are needed for those who work on Indonesia, but said the new economic team is a strong positive. The President, Vice President and Cabinet have also done a better job at marketing Indonesia overseas and generating interest in the country than in the past. All participants also agreed that credible, sustainable investment reforms would be essential. The Government's Investment Climate Improvement Package package is good, but implementation will be key. Sampson asked whether changes would happen fast enough to support President Yudhoyono's political agenda. A think tank representative responded that Yudhoyono would probably win a second term because he is popular enough and has no strong opposition.

Indonesia Chamber of Commerce and Industry (KADIN)

¶10. (U) A five person delegation from KADIN's United States' Committee (KIKAS) briefed Deputy Secretary Sampson over lunch on the state of Indonesian economy and prospects for increasing U.S. - Indonesia trade and investment. KIKAS Advisory Board member Didie Soewondho noted that although Indonesia's macroeconomic indicators are strong, the real economy has slowed noticeably since the October 1, 2005 fuel price hikes. KADIN has very close relations with the GOI, Soewondho noted, and President Yudhoyono and his economic ministers consult frequently with the group. Boosting investment is Indonesia's core challenge, he continued, and the January 2005 "Infrastructure Summit" and February 2006

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infrastructure policy package have fixed about 40 percent of the 22 laws and regulations holding back investment in the infrastructure sector.

¶11. (SBU) Deputy Secretary Sampson asked the KIKAS group whether there are particular sectors where American firms could be most helpful. Soehondho responded that oil, gas, and petrochemicals are particularly strong sectors for U.S. companies, but added that Dow Chemicals and Dupont have kept a very low profile in Indonesia. Andru Subowo of the private equity firm Bramadi Capital noted that the U.S. has very efficient distribution systems for goods and people, and that Indonesia could benefit from U.S. investment in these areas. In contrast, Airlangga Hartarto of the Indonesian Association of Publicly Listed Companies noted that public sentiment has turned against U.S. companies in Indonesia because of the Freeport and Newmont controversies. However, when pressed by Deputy Secretary Sampson, Hartarto agreed that multi-national NGOs and political "free riders" were using foreign companies as targets in order to whip up public discontent. The solution is to find a way to demonstrate that investment projects generate benefits for surrounding communities.

¶12. (U) Several KIKAS participants commented on the importance of building business links between small and medium enterprises (SMEs) in the U.S. and Indonesia. Large U.S. companies can implement projects on their own, Hartarto observed, but U.S. SMEs would need to partner with Indonesian SMEs, benefiting both sides. KIKAS Advisory

Board Member Daniel Iskandar noted that Indonesian SMEs have a hard time competing with Singapore, and suggested modifying U.S. trade agreements to provide concessions targeted at SMEs. Deputy Secretary Sampson agreed with the importance of boosting SME cooperation, noting that one of Secretary Gutierrez's top policy goals is to increase the

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number of U.S. SMEs involved in export markets. William Zarit, Regional Director for East Asia and the Pacific at the Department of Commerce, briefed the KIKAS group on Foreign Commercial Service (FCS) programs targeting SMEs and encouraged them to contact the Jakarta FCS office.

¶13. (U) Deputy Secretary Sampson asked the KIKAS delegation whether, as Indonesian businessmen, they are satisfied with the pace of economic reform. Hartarto, who also serves as a Golkar member of parliament, was pessimistic, saying the GOI is "not in charge", has no direction, and always wants to wait around for Parliament to act. Rather than submitting numerous draft laws to Parliament, each of which will take at least a year to pass, the GOI should enact a package of tax incentives. Foreign companies need legal certainty, Hartarto said, but Indonesian companies need financing help now, not when the new tax law finally passes. Another major problem is Indonesia's lack of an energy policy, which has hurt investment in the sector. When questioned by Deputy Secretary Sampson, the KIKAS group agreed that China poses

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the toughest regional competition for Indonesia, with India and Vietnam in second place. Soehondo added, however, that Vietnam offers a very attractive package for investors and is moving up fast.

¶14. (U) Deputy Secretary Sampson's party reviewed this message.

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